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December 19, 2000

***To the Citizens of the Commonwealth of Massachusetts,
Governor Argeo Paul Cellucci, and Honorable Members of the
General Court***

I am pleased to transmit the Comprehensive Annual Financial Report ("CAFR") for the fiscal year ended June 30, 2000 ("FY00.") The financial condition of the Commonwealth remains strong. Over \$1.6 billion, or approximately 6% of budgeted revenues determined in accordance with Generally Accepted Accounting Principles "GAAP" is in the Commonwealth's Stabilization Fund, sometimes called the "rainy day" fund. With the fund nearly at the maximum amount authorized by law, the Commonwealth is prepared for an economic slowdown.

For the tenth consecutive year, revenues have exceeded expenditures in the governmental funds. Some of us remember in the not too distant past, that the Commonwealth reported a fund deficit in accordance with GAAP of \$1.9 billion. I am now pleased to report a *positive* GAAP governmental fund balance of \$2.8 billion. The GAAP Fund Balance approximates the Statutory Basis fund balance. In FY90 and FY91, the Commonwealth resorted to over \$1.8 billion in deficit borrowing to start down the road of putting its fiscal house in order. What has caused this turnaround? Years of prudent fiscal management, characterized by structurally balanced budgets, and strategic investments in the Commonwealth's future, combined with a favorable economy, has made the Commonwealth fiscally strong. The Commonwealth is continuing to take steps to plan for the future. In FY00, the Commonwealth set aside \$650 million to defease high interest debt that otherwise could not be refunded. Another \$205.6 million was used to fund new infrastructure and other capital projects, avoiding additional debt burden. These strategic uses of surplus to fund long-term liabilities of the Commonwealth has resulted in the large fund balance on both a statutory and GAAP basis. In 1991 the Statutory Basis Fund Balance in the budgeted funds was \$237 million. However, this same balance when computed in accordance with GAAP, was a deficit of \$761 million. Today's GAAP fund balance in excess of \$2.8 billion is the strongest evidence of the Commonwealth's decade long commitment to conservative budgeting and strategic investments in its future stability. It is the ongoing challenge to Commonwealth policy makers to ensure that the financial condition of the Commonwealth remains strong.

Probably the most significant change in the Commonwealth's financial management is the change in the financial relationship with the Massachusetts Bay Transportation Authority ("MBTA,") the Boston area's metropolitan transit system. For decades, the Commonwealth has been the payer of last resort for the MBTA.

MBTA Forward Funding

Sources of Funds

G.O. Bonds Issued.....	\$325,000,000
Operating Transfers.....	10,540,000
Amount to be Amortized.....	<u>612,750,000</u>
Total Sources of Funds to the MBTA...	<u>948,290,000</u>

Uses of Funds

Net Cost of Service Paid For:

Calendar Year 1999 and before.....	505,750,000
1/1/00 through 6/30/00.....	342,540,000
Working Capital.....	<u>100,000,000</u>
Total Cost of Forward Funding.....	<u>\$948,290,000</u>

The Commonwealth recognized this liability on statutory basis 18 months in arrears. For years the difference between what the MBTA spent and took in as revenues was presented to the Treasurer as the request for a cash advance, which was paid and then budgeted by the Legislature in a subsequent fiscal year. While the old law provided a number of procedures to control the growth in spending, this structure excluded the MBTA from the normal budgetary review process. In addition, because transit fares had remained level and contributions from cities and towns had a growth ceiling under Proposition 2½, the bill to the Commonwealth included a disproportionate share of the increase in expense. Beginning in FY01, a new funding mechanism is in place. The Commonwealth will set aside 20% of sales tax revenues, along with amounts assessed on the cities and towns within the service district in a separate fund. The MBTA will control its own destiny by balancing its spending needs with available revenue sources, including this dedicated revenue stream from the Commonwealth. In addition, while the Commonwealth will continue to guarantee existing debt of the MBTA, it will not guarantee future debt issuance.

One crucial step in this process was for the Commonwealth to fund the 18 month lag in operating subsidies previously financed through the loaning of cash reserves to the MBTA and the issuance of notes by the Commonwealth and the MBTA. Under this convoluted process, conceived in the 1960's, the calendar 1998 operating deficit of the MBTA was appropriated in the FY00 budget. In order to catch up, the Commonwealth needed to budget this lag (January 1999 – June 30, 2000) in FY00. The cost of this lag is \$848 million. This cost, along with \$100 million in working capital, was financed by \$325 million in General Obligation Bonds, \$10.5 million in operating appropriations and a \$612.8 million capital projects fund authorization. Additional bonds have been authorized to finance this final piece, but only if it is determined that it cannot be supported within the Commonwealth's cash flow. Otherwise it will be amortized over 20 years in the operating budget.

This Comprehensive Annual Financial Report, ("CAFR,") is prepared by the Office of the Comptroller and we are responsible for the fair presentation of the financial statements of the Commonwealth. The report is presented in three sections: Introductory, Financial, and Statistical. The three sections of the CAFR, as detailed in the table of contents, include the information necessary for the reader to obtain a comprehensive understanding of the Commonwealth's financial position and the results of its operations for FY00.

The CAFR is prepared in accordance with GAAP as established by the Governmental Accounting Standards Board ("GASB,") the professional standards of the American Institute of Certified Public Accountants ("AICPA,") the recommendations of the Government Finance Officers Association ("GFOA,") and the requirements of state finance law.

The Office of the Comptroller transmits the Comprehensive Annual Financial Report in accordance with Section 12 of Chapter 7A of the General Laws.

BUDGETED FUNDS OPERATIONS

The portion of state finances that generates the greatest degree of interest is the Budgeted Funds. These funds include the General, Local Aid, Highway, and certain Special Revenue Funds which comprise the annual state budget. These funds are also important to analyze as the bulk of their revenues are derived from taxation and federal reimbursements. The expenditures in these funds are largely general governmental operations, Medicaid, Local Aid, debt service and public assistance.

The table of Budgeted Funds Operations - GAAP Basis sets forth a multi-fiscal year view of financial performance for the Budgeted Funds under GAAP, and also provides a comparison to the same funds as accounted and reported under the statutory basis of accounting.

Budgeted Funds Operations - GAAP Basis

(Amounts in millions)

	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>FY99</u>	<u>FY00</u>
Beginning fund balances	\$ 287.4	\$ 709.2	\$ 1,096.3	\$ 1,841.4	\$ 1,704.9
Revenues and other financing sources...	17,524.6	18,845.9	20,339.9	20,655.7	25,914.1
Expenditures and other financing uses..	<u>17,102.8</u>	<u>18,458.8</u>	<u>19,594.8</u>	<u>20,792.2</u>	<u>25,293.9</u>
Excess (deficiency).....	421.8	387.1	745.1	(136.5)	620.2
Ending fund balances	<u>\$ 709.2</u>	<u>\$ 1,096.3</u>	<u>\$ 1,841.4</u>	<u>\$ 1,704.9</u>	<u>\$ 2,325.1</u>

Budgeted Funds Operations - Statutory Basis

(Amounts in millions)

	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>FY99</u>	<u>FY00</u>
Beginning fund balances	\$ 726.5	\$ 1,173.0	\$ 1,394.0	\$ 2,192.1	\$ 2,112.4
Revenues and other financing sources..	18,371.4	19,223.3	21,404.6	21,566.9	26,221.1
Expenditures and other financing uses..	<u>17,924.9</u>	<u>19,002.3</u>	<u>20,606.5</u>	<u>21,646.6</u>	<u>26,048.1</u>
Excess (deficiency).....	446.5	221.0	798.1	(79.7)	173.0
Ending fund balances.....	<u>\$ 1,173.0</u>	<u>\$ 1,394.0</u>	<u>\$ 2,192.1</u>	<u>\$ 2,112.4</u>	<u>\$ 2,285.4</u>

On the statutory basis of accounting, which is used to develop the Commonwealth's budget and control its daily activities, the Budgeted Funds have achieved positive ending fund balances for each of the last five years. During this period, fund balance increased from \$1.2 billion in fiscal year 1996 to \$2.3 billion in the current fiscal year, for a cumulative improvement of \$1.1 billion.

Over the same period on a GAAP basis, operating gains have improved the fund balance from \$709.2 million to \$2.3 billion, a cumulative improvement of \$1.6 billion. The widely acknowledged efforts to accomplish fiscal balance on a statutory basis are even more dramatic on a GAAP basis.

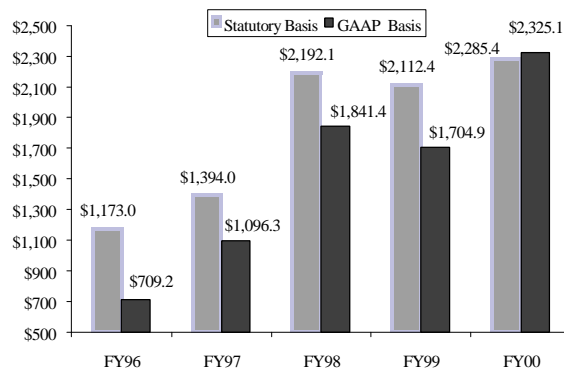
In FY00, the revenues and other financing sources in the budgeted funds totaled \$25.9 billion. The Budgeted Funds - GAAP Basis chart shows the percentage of revenue by type contributing to that total. Budgeted Funds expenditures and other financing uses totaled \$25.3 billion. The chart depicts the percentage of each major program in this total.

Historically, there have been five major items that account for almost all the difference between the statutory basis reporting and GAAP: the Medicaid program, subsidies to authorities such as the MBTA, compensated absences, claims and judgments, and tax revenues. In FY00, the Commonwealth's GAAP fund balance was *higher* than its statutory fund balance for the first time since the Commonwealth began reporting on a GAAP Basis. This is primarily due to the forward funding of the MBTA on a statutory basis.

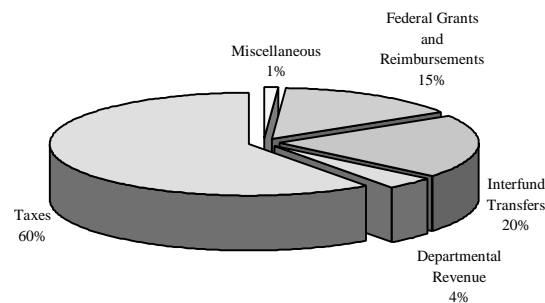
For the Medicaid program, expenditures under the statutory basis of accounting are equivalent to cash disbursements. Thus, bills for services rendered during the fiscal year but not paid, or rate adjustments owed but not paid, are not measured in that year. Rather, they are reported statutorily in the next fiscal year when the cash is received or paid. Under GAAP however, such items are accrued, so that all expenditures are consistently correlated to the fiscal year to which they pertain.

The Medicaid expenditures measured on a GAAP basis for FY00 were \$4.4 billion, which is 14.4% higher than FY99. The value of this liability in FY00, net of federal reimbursement, was \$236.7 million. For several years, the Commonwealth aggressively pursued a policy to constrain expenditure growth in Medicaid, thus helping to balance the overall budget.

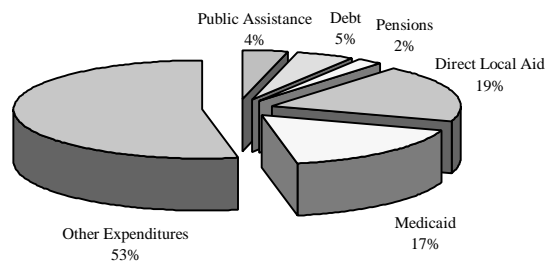
GAAP VS. STATUTORY FUND BALANCE (Amounts in millions)



BUDGETED FUNDS – GAAP BASIS Revenue and Other Financing Sources



BUDGETED FUNDS – GAAP BASIS Expenditures and Other Financing Uses



The expansion in Medicaid in FY00 was due to the first full year of the Commonwealth's expanded eligibility for services, initiated in FY98. In the face of this expansion though, it is important to assure Medicaid service conforms to affordable growth in the overall budget.

The second difference is the subsidies that the Commonwealth had paid to the MBTA and will continue to pay to the Regional Transit Authorities ("RTAs.") Through various laws the Commonwealth has obligated itself to provide subsidies to these transit authorities for operations and debt service. However, the annual budget is appropriated on a basis which "lags" behind the total amount of the subsidy for the RTAs. Under GAAP, the amount obligated is accrued, to reflect the total cost of the subsidy. Now that the MBTA funding has been addressed this difference is minimal.

The third difference is compensated absences. Under the statutory basis of accounting, the vacation and sick time taken by employees is expensed as it is used. Under GAAP, the amounts owed for vacation earned but not yet taken, and certain amounts of sick leave earned, are accrued and reported as expenditures of the current fiscal year. The liability and usage trend for compensated absences has been relatively consistent.

The fourth difference is claims and judgments. Under the statutory basis, amounts owed as a result of lawsuits for torts, tax disputes, eminent domain land takings, or other legal actions are not measured as expenditures until the issue is adjudicated and the settlement is paid. Under GAAP, an analysis is performed on all pending litigation, and an amount is accrued for that portion of litigation where a settlement against the Commonwealth is considered probable and reasonably estimable.

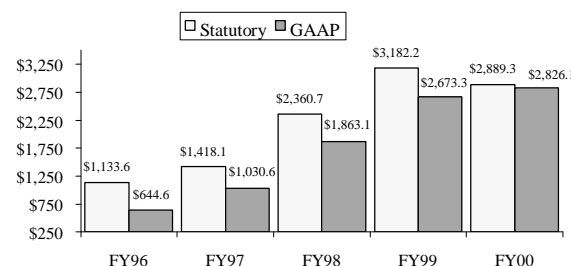
The fifth difference between statutory and GAAP relates to the recognition of tax revenue. A taxpayer's obligation incurred during a fiscal year usually is not fully collected until the ensuing fiscal year; under the statutory basis of accounting this revenue is not recognized until the cash is received. However, under GAAP, an analysis is conducted in conjunction with the Department of Revenue ("DOR,") and an accrual for revenue earned is computed. In FY00, the value of accrued tax revenue from all sources was \$509.4 million.

GOVERNMENTAL FUND OPERATIONS

The Governmental fund type includes all funds where the Commonwealth imposes its sovereign authority to collect revenues and authorize expenditures. This includes all Budgeted Funds as previously described (General and several Special Revenue Funds,) all other (non-budgeted) Special Revenue Funds, and the Capital Project Funds. When viewed as a whole, these funds portray the Commonwealth's comprehensive governmental financial activity. The five-year trend of operations, on a GAAP basis, is summarized in the table on the following page.

The Commonwealth bonds for capital projects in arrears. These expenditures and financing sources are recorded in the Capital Projects Funds component of the Governmental Funds total. The practice of bonding in arrears allows for a high degree of certainty in project spending, mitigating a potential adverse tax consequence. As a result of this practice the Governmental Funds positive fund balance includes FY00 expenditures that will not be funded by bonds until FY01. Between July 1 and December 18, 2000, the Commonwealth issued \$575.1 million in General Obligation Debt to finance these expenditures. In addition, the Commonwealth issued \$577.6 million in Grant Anticipation Notes. \$279.2 million of this amount was reimbursement for expenditures temporarily financed through the Commonwealth's cash flow and the balance has been set-aside to finance expenditures as they occur in the coming year. Finally the Commonwealth recently issued \$677 million in General Obligation Debt, in the form of variable rate and auction rate securities, specifically targeted toward future expenditures of the Central Artery / Tunnel Project. These funds have been invested at rates slightly in excess of the rate of interest on the bonds, generating net income for the Commonwealth. Also subsequent to year-end, the Commonwealth defeased over \$400 million of existing debt as part of the process of funding the Central Artery / Tunnel Project and various projects for statewide roads and bridges.

GOVERNMENTAL FUND BALANCE
Statutory vs. GAAP
(Amounts in millions)



Governmental Fund Operations - GAAP Basis
(Amounts in millions)

	FY96	FY97	FY98	FY99	FY00
Beginning fund balances (deficits).....	\$ (16.3)	\$ 644.6	\$ 1,030.6	\$ 1,863.1	\$ 2,673.3
Revenues and other financing sources.....	25,102.3	27,372.9	31,249.3	33,272.7	38,174.4
Expenditures and other financing uses.....	<u>24,441.4</u>	<u>26,986.9</u>	<u>30,416.8</u>	<u>32,462.5</u>	<u>38,021.6</u>
Excess	660.9	386.0	832.5	810.2	152.8
Ending fund balances	<u>\$ 644.6</u>	<u>\$ 1,030.6</u>	<u>\$ 1,863.1</u>	<u>\$ 2,673.3</u>	<u>\$ 2,826.1</u>

The Central Artery / Tunnel Project has frequently been referred to as the largest public works project in the history of the United States and an engineering masterpiece. Recently the cost of the project has been the target of public scrutiny.

The Commonwealth has aggressively responded to concerns regarding the integrity of the cost estimates. An independent evaluation of the entire estimate for the project was undertaken. The results were fully disclosed and a finance plan for the cost increases was enacted.

The Commonwealth has also put in place a new management team for the Project that is committed to full, timely disclosure about schedules and costs. The bulk of the spending remaining, outlined in the table to the right, on the Project is currently estimated to occur during FY01 and FY02, with final completion now targeted in FY05. Pursuant to statute and agreements with the Massachusetts Turnpike Authority (the “MTA”) and the Massachusetts Port Authority (“MassPort,”) the entities have committed to significant ongoing contributions to the Commonwealth as part of the financing for this project.

The special revenue funds receive all revenues from the Master Settlement Agreement (MSA) between the states and the tobacco industry to recover health care costs for tobacco related illnesses. The MSA estimates the Commonwealth revenues for the first 25 years of the settlement at \$7.6 billion. This estimate is prior to future adjustments for inflation and changes in the volume of domestic cigarette sales. In FY00, the Commonwealth received \$326 million or 92% of the estimated amounts shown in the settlement agreement. Of the \$326 million, \$83.6 million was transferred to the Tobacco Settlement Fund, a budgeted fund, with nearly half of that amount expended on various health initiatives in the Commonwealth. The Fund also earned nearly \$4.7 million in investment income during the year.

Beginning in FY01, a board of public and private sector investment experts, appointed by the Governor, the Attorney General and the Treasurer-Receiver-General, will manage the investment of funds in the Health Care Security Trust Fund, the recipient of all money in the MSA. This board has broad discretion on investment choices to increase the assets in the fund. Annually 30% of payments into the fund and investment earnings thereon will be transferred to the budgeted funds for appropriation by the Legislature.

INTERNAL SERVICE FUNDS

In FY95, the Commonwealth established for GAAP reporting purposes three Internal Service Funds. These funds account for the operations of the State Employees Workers’ Compensation Program, a special workers’ compensation program for the Central Artery/Tunnel Project, and for the health insurance programs administered by the Group Insurance Commission. In FY00, one additional internal service fund, the Liability Management and Reduction Fund (“LMRF,”) was established. The newest fund is for a program to charge back departments the cost of liability insurance. With the exception of LMRF, on the statutory basis of accounting these funds have not been created and are not reported. The adjusting entries to report these “GAAP only” funds represent another difference from the statutory basis.

The Human Resource Division of the Commonwealth administers the Commonwealth’s self-insured State Employees Workers’ Compensation Program. Revenues of the program represent amounts charged to the various Commonwealth departments. Expenses are for claims and settlements, and accrued expenses for incurred claims, which will be paid in the future.

Central Artery/Tunnel Project (Amounts in billions)

Sources of Funds:

Federal Funds	\$ 7.049
MTA	1.793
MassPort	0.365
GANS	1.500
Other Commonwealth Debt	2.815
Commonwealth Operating Funds and Investment Earnings	<u>0.553</u>

Total Sources \$ 14.075

Costs of Construction:

Actual Costs through FY00	\$ 9.122
Estimated Spending:	
FY01	1.744
FY02	1.371
FY03	0.940
FY04	0.658
FY05	<u>0.240</u>

Total Estimated Costs of Construction: \$ 14.075

The traditional policy followed by the Commonwealth has been to set “chargebacks” to Commonwealth departments equivalent to claims actually paid, typically referred to as a “pay-as-you-go” approach.

As a result, an unfunded actuarial liability of \$255.4 million has accumulated, of which \$36.1 million is expected to be paid within one year. The Commonwealth should consider a plan to base annual chargebacks on an actuarial valuation, thus eventually funding such liability.

For the Central Artery/Tunnel Project, the Executive Office of Transportation and Construction, with the approval of the U.S. Department of Transportation, has created a special program to cover all participants’ workers’ compensation and general liability claims on the project. In this arrangement, annual premiums and investment earnings are accumulated by the insurance carrier and held in trust on behalf of the Commonwealth to fund current and future claims. The approach is expected to reduce the financial impact to the federal government and the Commonwealth of a potentially expensive component of the large, multi-year construction project.

The Group Insurance Commission manages the health insurance program for Commonwealth employees, retirees, and their beneficiaries. Revenues to the program are amounts contributed by individuals, participant organizations, or by the Commonwealth. The expenses are claims and accruals for claims incurred but not reported. The accumulated balance, a small deficit, is not material to the size of the program, suggesting that symmetry of revenues to expenses is reasonable and change is not warranted.

The LMRF is used for charge backs assessed to departments as premiums for the provision of insurance coverage for state agencies to cover payment of judgments, settlements and litigation costs in tort claims. Through this fund, as well as other measures, the Commonwealth departments have a greater role in managing these costs.

Internal Service Fund Operations

(Amounts in millions)

	<u>FY96</u>	<u>FY97</u>	<u>FY98</u>	<u>FY99</u>	<u>FY00</u>
Beginning retained earnings (deficits).....	\$ (223.4)	\$ (151.0)	\$ (140.3)	\$ (102.9)	\$ (87.0)
Operating gain (loss).....	68.7	3.2	26.6	1.0	\$ (2.7)
Other revenues	<u>3.7</u>	<u>7.5</u>	<u>10.8</u>	<u>14.9</u>	<u>15.8</u>
Ending retained earnings (deficits).....	<u>\$ (151.0)</u>	<u>\$ (140.3)</u>	<u>\$ (102.9)</u>	<u>\$ (87.0)</u>	<u>\$ (73.9)</u>

FIDUCIARY FUND OPERATIONS

The Fiduciary type of funds consists of funds where the Commonwealth is acting as an agent, or steward for funds, which relate to another party. The Fiduciary Fund Type includes the Expendable Trust, Non-expendable Trust, Pension Trust, External Investment Trust and the

Agency Funds.

The Nonexpendable Trusts account for assets held with restrictions and the Agency funds account for assets managed temporarily on behalf of other parties.

The Expendable Trusts ended FY00 with a fund balance of \$5.7 billion. This balance is composed of \$284.7 million in various Commonwealth held Expendable Trusts, \$2.2 billion in the Unemployment Compensation Trust Fund and \$3.1 billion in the Deferred Compensation Trust.

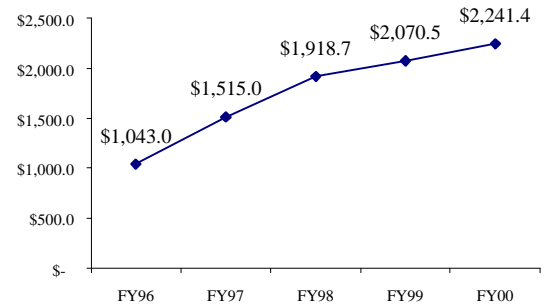
The External Investment Trust is comprised of the portion of investments held by the State Treasurer and Receiver - General on behalf of political sub-divisions in the Massachusetts Municipal Depository Trust ("MMDT.") The MMDT was established by the State Treasurer as a pooled investment trust.

The Commonwealth is responsible for the payment of pension benefits to its employees and to the teachers of the cities, towns, and regional school districts. It manages the operations of both the State Employees' Retirement System ("SERS") and Teachers' Retirement System ("TRS") and reports the results of operations and net assets available to fund employee pension benefits as Pension Trust Funds. Pursuant to the pension reform laws, the Commonwealth funds its pension liabilities on a long-term schedule. It is the responsibility of the Public Employee Retirement Administration Commission ("PERAC") to complete actuarial updates for the funding schedule. The current funding schedule is designed to fully fund the systems by FY2018.

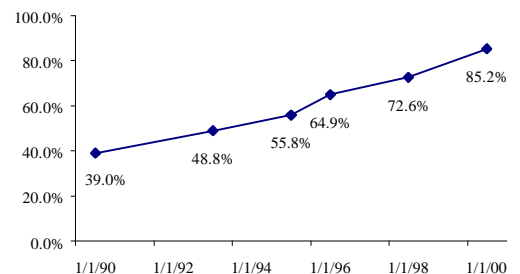
The Pension Funding Progress Graph presents the excellent results over the past eight years of meeting the objective of having a fully funded plan. Footnote 10 details the progress by system.

The following table presents a five-year trend analysis of the Pension Trust Funds Operations.

Fund Balance
For Unemployment Compensation Fund
(Amounts in millions)



Pension Funding Process
Funded Ratio



Source: Public Employee Retirement Administration
Commission Actuarial Valuation Report – 1/1/00

Pension Trust Funds
(Amounts in millions)

	FY96	FY97	FY98	FY99	FY00
			(as restated)		
Beginning fund balances	\$ 13,483.2	\$ 15,956.2	\$ 19,560.0	\$ 23,960.0	\$ 27,112.3
Revenues.....	3,560.6	4,729.4	5,644.0	4,517.1	5,944.3
Expenses.....	1,087.6	1,125.6	1,244.0	1,364.8	1,477.2
Excess	2,473.0	3,603.8	4,400.0	3,152.3	4,467.1
Ending fund balances.....	<u>\$ 15,956.2</u>	<u>\$ 19,560.0</u>	<u>\$ 23,960.0</u>	<u>\$ 27,112.3</u>	<u>\$ 31,579.4</u>

UNIVERSITY AND COLLEGE FUNDS

Since FY93, the CAFR has presented the University and College system in accordance with the AICPA Industry Audit Guide, "Audits of Colleges and Universities." This presentation combines financial activity from all fund types for:

- The University of Massachusetts, including its campuses at Amherst, Boston, Dartmouth and Lowell.
- The State College system of nine state colleges, which provide four-year post-secondary education, and the State College Building Authority.
- The Community College system of fifteen community colleges, which provide two-year post-secondary education, programs.

The University and College Fund Type reports a positive GAAP fund balance. Approximately \$2.9 billion of this fund balance is restricted or designated in plant funds, endowment funds, or other purposes.

University and College Fund Type Operations (Amounts in millions)

	<u>FY96 (1)</u>	<u>FY97</u>	<u>FY98</u>	<u>FY99</u>	<u>FY00</u>
Beginning fund balances.....	\$ 2,164.9	\$ 2,363.3	\$ 2,512.2	\$ 2,621.0	\$ 2,768.0
Revenues and other additions.....	1,816.6	1,823.7	1,461.6	1,506.8	1,631.4
Expenditures and other deductions.....	2,254.4	2,381.8	2,053.9	2,218.1	2,374.6
Net transfers, including state appropriations.....	636.2	707.0	781.2	858.3	934.6
Net assets transferred to UMass Memorial Health Care, Inc.....	-	-	(70.5)	-	-
Loss from discontinued operations	-	-	(9.6)	-	(15.1)
Net Increase	<u>198.4</u>	<u>148.9</u>	<u>108.8</u>	<u>147.0</u>	<u>176.3</u>
Ending fund balances.....	<u>\$ 2,363.3</u>	<u>\$ 2,512.2</u>	<u>\$ 2,621.0</u>	<u>\$ 2,768.0</u>	<u>\$ 2,944.3</u>

(1) As restated for addition of component units

In FY00, the University and colleges are commended for producing stand-alone audited financial statements in conformity with GAAP. These 25 schools have demonstrated accountability to their trustees, the Governor and Legislature, and to all concerned parties, by preparing financial statements in accordance with GAAP.

For several years both the Comptroller's Office and the Board of Higher Education have encouraged all schools as a matter of policy, to commit the requisite resources and effort to produce stand-alone audited financial statements. The role of publicly subsidized higher education is important to the continued enhancement of the Commonwealth's economy and quality of life. Accordingly, the financial accountability and financial health of the universities and colleges is an important public policy concern.

COMPONENT UNITS

The Commonwealth's relationship to the independent public authorities, reported as Component Units, is based on statute and contracts between the Commonwealth and these entities.

Component Units Operations					
(Amounts in millions)					
	Beginning Fund Balance/ Retained Earnings	Operating Gain/ (Loss)	Subsidy	Other Changes	Ending Fund Balance/ Retained Earnings
Massachusetts Bay Transportation Authority.....	\$ (163)	\$ (682)	\$ 917	\$ (170)	\$ (98)
Massachusetts Turnpike Authority.....	376	46	-	(78)	344
Regional Transit Authorities.....	5	(92)	49	44	6
Massachusetts Water Pollution Abatement Trust.....	99	(18)	8	33	122
Massachusetts Development Finance Agency.....	36	(9)	13	13	53
Massachusetts Convention Center Authority.....	9	(15)	16	1	11
Massachusetts Technology Park Corporation	17	-	(1)	-	16
Corporation for Business Work and Learning.....	10	(73)	8	67	12
Massachusetts Community Development Finance Corporation.....	3	(1)	1	(1)	2
Community Economic Development Assistance Corporation.....	62	7	-	1	70
Massachusetts Corporation for Educational Telecommunications.....	3	(7)	13	(1)	8
Massachusetts Housing Partnership.....	14	5	7	(9)	17
Commonwealth Zoological Corporation.....	3	(5)	8	2	8
Massachusetts International Trade Council.....	<u>1</u>	<u>(1)</u>	<u>1</u>	<u>-</u>	<u>1</u>
Total.....	<u>\$ 475</u>	<u>\$ (845)</u>	<u>\$ 1,040</u>	<u>\$ (98)</u>	<u>\$ 572</u>

For those interested in more detailed information on the working of these political subdivisions of the Commonwealth, footnote 1 to the financial statements provides contact information where audited financial statements for each of these entities may be obtained.

INDEPENDENT AUDIT

The firm of Deloitte & Touche LLP, together with subcontractors Daniel Dennis & Company, Margaret Carr, CPA and Susan Perna-Damon, CPA, and assisted by the Office of the State Auditor ("OSA,") have performed an independent audit of the Commonwealth's general purpose financial statements for the fiscal year ended June 30, 2000. OSA also plays a large role in the simultaneous audit of the Schedule of Federal Financial Assistance of the Commonwealth, as prescribed in the Federal Office of Management and Budget's Circular A-133.

An integral part of any audit of financial statements is a plan that the audit obtains reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. When performing an audit in accordance with applicable standards, the

auditors obtain a sufficient understanding of the Commonwealth's internal controls to enable them to properly plan the audit and to determine the nature, timing and extent of the audit procedures to be performed. However, because of the characteristics of fraud, a properly planned and performed audit may not detect such illegal acts.

The OSA is statutorily mandated to perform audits of the accounts, programs, activities and functions of all departments, offices, commissions, institutions and activities of the Commonwealth. OSA provides its knowledge, expertise, experience and resources as a participant in the single audit of the Commonwealth, which encompasses all of the Commonwealth's financial operations. A more complete discussion of this work can be found in the State Auditor's semi-annual report available on their web site: <http://www.state.ma.us/sao>.

We express our gratitude to the staff of the respective firms and the Office of the State Auditor for their professionalism, advice and counsel. The independent auditor's report is presented in the Financial Section.

INTERNAL CONTROL ENVIRONMENT

Chapter 647 of the Acts of 1989, places authority and responsibility for internal controls with the head of each executive department, constitutional office, and branch of government. The Office of the Comptroller issues internal control guidelines and the Office of the State Auditor may investigate departments with risk of internal control weaknesses.

The Office of the Comptroller continues to deliver training sessions for department managers regarding their responsibility for internal control in the Commonwealth's highly automated environment.

Absolute assurance with respect to internal control is prohibitively expensive. Using risk assessment criteria set forth in the guidelines and stressed in the training, the objectives of the Commonwealth's internal control structure are to provide management and the public with reasonable assurance that internal control systems do not have material weaknesses.

The Office of the Comptroller has been working to further strengthen the guidance for Internal Controls for the Commonwealth through a statewide Internal Control Campaign. Using the Committee of Sponsoring Organizations ("COSO") Report of the Treadway Commission as a basis, the office has issued an expanded and updated Internal Control Guide for managers of the Commonwealth. The goal of this effort is to present a sound set of practices that enhance financial credibility throughout the Commonwealth.

As part of the FY00 audit, the Commonwealth emphasized the analysis of departmental internal control plans. The goal being to have departments not just think of their plans as fiscal control documents but management documents that assess risk across all programmatic areas of the department and document strategies to mitigate those risks. The plans, which included developing customized training for particular

departments, scheduling monthly internal control classes, devoting hundreds of single audit hours in the review of internal control plans, development of internal control models and risk assessment techniques and making managers generally aware of the importance of these controls. As a result of this emphasis, the number of current year findings have decreased, the findings repeated from previous years have decreased, and the findings resolved in one year reached an all time high. We clearly have the attention of our departments and plan to continue this focus next year through the continuation of the education process, expansion into program areas to compliment our success in the financial arena, and increased communication of internal information at all levels of government.

REPORTING ENTITY

The financial statements incorporate the 156 departments, agencies, boards, commissions, institutions of higher education, the judicial and legislative branches of government, and constitutional offices.

The departments record their daily financial operations in the state accounting system called the Massachusetts Management Accounting and Reporting System (“MMARS”) operated by the Office of the Comptroller.

In addition, the financial statements include independent public authorities and the State Employees’ and Teachers’ Retirement Systems. These component units meet the criteria for inclusion in the reporting entity in accordance with GAAP, which are further described in Note 1 to the general purpose financial statements.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

MMARS is the computerized, statewide accounting system used by all departments to control and account for their financial activity under the statutory basis of accounting. The financial operations of the authorities and certain non-appropriated higher education funds are accounted for through their own independent accounting systems.

MMARS is designed to satisfy all requirements of the Commonwealth’s statutory basis of accounting and financial reporting. Any additional information needed to prepare financial statements according to GAAP is provided through a combination of MMARS system-generated data, information compiled by departments, and the submission of audited financial statements from certain independent authorities.

During FY01 and for the next three years, the Commonwealth will take steps to upgrade MMARS from a “green screen” mainframe-based system to one that is an Internet based application. We believe that it is time to upgrade the system to take advantage of current and future technologies to position the Commonwealth to provide seamless integration of its e-government applications to its “back-end” budgetary control and financial management systems.

Note 2 to the general purpose financial statements provides a reconciliation between the General and Budgeted Special Revenue Funds on a statutory basis and the GAAP basis presented in the general purpose financial statements.

CASH AND INVESTMENTS

The State Treasurer and Receiver – General controls cash and investments with the exception of pension assets, which are managed by the Pension Reserves Investment Trust. Each department deposits cash receipts daily into a Treasury controlled bank account. Weekly and daily warrants for disbursements are prepared by the Comptroller, and reviewed and approved by the Governor’s Council; the Treasurer issues disbursements. The banking and disbursement process has been recently streamlined to optimize the use of electronic funds transfer and electronics benefits transfer.

A system of bank depository and disbursement accounts and “lockboxes” are employed by the Treasurer’s Office to maximize daily cash balances. The Treasurer manages these cash balances in MMDT and other funds to optimize interest earnings. The Treasurer’s Office invests cash from these general accounts in short-term securities and other investments. A discussion of cash and investments is presented in Note 3 to the general purpose financial statements.

The Treasurer is also responsible for quarterly cash flow plans, weekly variance reporting and, jointly with the Executive Office for Administration and Finance, annual and quarterly cash management plans. Taxes and non-tax inflows, warrants, other outflows, and short and long-term borrowings are monitored against these plans.

FY00 is the seventh year of the Commonwealth’s implementation of the U.S. Cash Management Improvement Act (“CMIA.”) The CMIA requires the states to measure interest income on federal funds drawn from the U.S. Treasury prior to disbursement, and for the U.S. Treasury to measure interest income on funds drawn down subsequent to disbursement. A settlement of interest due to or due from the Commonwealth and federal government is computed.

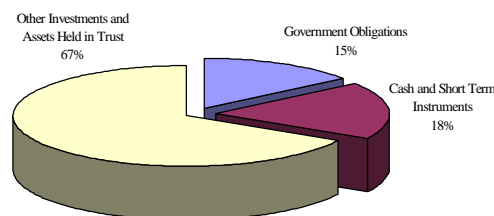
DEBT

The Commonwealth funds its capital appropriations by authorizing the issuance of long-term bonds. The Long-Term Debt table sets forth the trend of the Commonwealth’s tax-supported long-term indebtedness for the last five years.

To limit the Commonwealth debt burden, and control the degree to which debt service creates pressure on the operating budget, the Administration has implemented a five-year capital spending plan. This administrative policy has existed for several years, and the effect of debt service on the operating budget is depicted on the following graph of Debt Service as a percent of Governmental Expenditures.

In FY97, Standard and Poor’s upgraded the rating for the Commonwealth’s General Obligation Debt from “A+” to “AA-”. The effect of the capital spending plan policy, the acceleration of funding of

Cash and Investments Primary Government at June 30, 2000 (Amounts in millions)

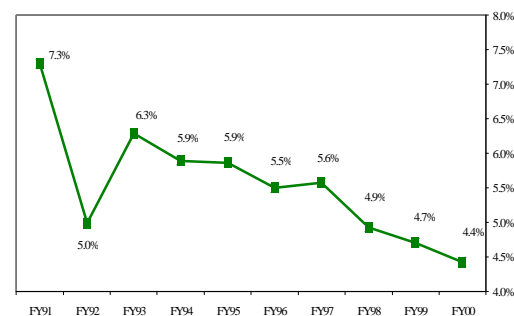


*Includes amounts that are in Pension Trust Funds

Long-Term Debt (Amounts in billions)

Fiscal Year	Authorized - Unissued	Principal Outstanding
2000	\$11.5	\$12.4
1999	12.0	11.8
1998	12.3	11.0
1997	12.0	10.3
1996	8.2	10.1

Debt Service as a Percent of Governmental Expenditures



the Commonwealth's pension liability and the string of operating surpluses were cited as reasons for the upgrade. The current credit ratings from Moody's is Aa2 and Fitch Investor Services is AA-.

As authorized by state finance law, the State Treasurer may utilize short-term borrowing to support governmental cash flow. Other debt consists of certificates of participation and capital lease agreements. Such financing arrangements are used to acquire capital assets, for example computer equipment and motor vehicles. The Commonwealth continued to utilize this form of financing in FY00.

Additional information on Commonwealth debt, including guaranteed debt of independent public authorities, is presented in Notes 7, 8, and 12 to the general purpose financial statements.

During FY00, the Commonwealth defeased debt through the use of \$400 million of the FY99 operating surplus through the escrow and irrevocable trust with an escrow agent that purchased U. S. Government securities. Through this action, the Commonwealth defeased debt service payments of approximately \$578.9 million over the next 9 years. At June 30, 2000, approximately \$508.5 million of the bonds refunded remained outstanding.

At the end of FY00, as part of the Central Artery / Tunnel Project as well as other statewide road and bridge projects, the Commonwealth set aside \$650 million of surplus funds in its debt defeasance fund, attributable to FY00 and prior years' surpluses. In the first months of FY01, nearly \$400 million was expended to purchase additional U.S. Government securities held in trust by escrow agents. The debt service savings from this action will be deposited in the fund for the Central Artery and statewide roads and bridges. On June 28, 2000, the Commonwealth also de-authorized \$106.7 million in unissued general obligation bonds.

RISK FINANCING

The Commonwealth assumes the risk of loss for property damage and personal injury, breach of contract, condemnation proceedings, and other alleged violations of law, and is defended by the Attorney General's Office in such cases. In FY00, approximately \$92 million was expended to settle such claims in special and existing appropriations. Based on the Attorney General's evaluation of cases in which it is probable that a judgment will be rendered against the Commonwealth, and a loss incurred, an additional \$32.5 million has been accrued in the Governmental Funds at June 30, 2000.

ECONOMIC AND FINANCIAL PROSPECTS

The theme of this year's CAFR is trade and commerce in the Commonwealth. We are proud of our healthy economy, but always aware that change is inevitable. Massachusetts has been the center of New England's economy since the Bradford Compact, nearly 380 years ago.

Our Commonwealth is home to many world-renowned institutions of medicine and higher education, both public and private, keeping the economy relatively stable and full of ingenuity. Tourism is also a significant component of our economy, its third largest industry. For 1998, the latest data available, the Massachusetts Office of Travel and Tourism estimates that over \$11.4 billion in direct expenditures were created by the tourism industry in the Commonwealth. According to the Office, these dollars supported 138,100 jobs generating nearly \$3.2 billion in payroll earnings. Traveler direct expenditures also generated \$1.9 billion in federal, state, and local taxes. The Boston metropolitan area and Cape Cod accounted for 71% of these expenditures that year.

Massachusetts' employment has been growing steadily since 1992. The Massachusetts' seasonally adjusted unemployment rate, currently at 2.6%, remains below the national seasonally adjusted rate of 4.0% as of June 30, 2000. Commonwealth per capita income continues to outpace the nation as shown in the Massachusetts vs. United States Year to Year Per Capita Income Graph. This graph shows that Massachusetts per capita income level has been and is increasingly growing against the rest of the nation.

The Commonwealth, with an international reputation for medical, cultural, historical, and educational institutions, is the economic and educational hub of New England. The Commonwealth's economy remains diversified but its strongest component is its knowledge-based technology and service industries.

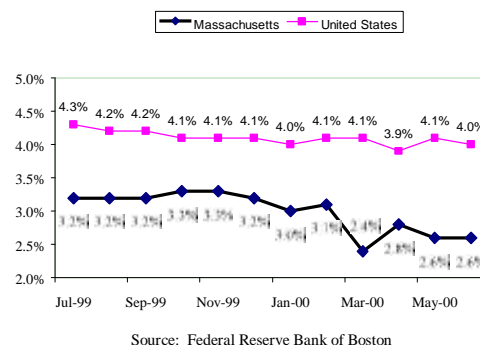
Massachusetts' infrastructure provides strong support for this knowledge-based economy. There are over 120 colleges and universities located in Massachusetts, and 27.2% of the residents over age 25 have earned bachelor's degrees, compared to 20.3% for the United States as a whole. Our capital, Boston, has over 20 hospitals and three medical schools.

A continued low rate of inflation is expected to keep wage growth low and allow for slow-paced positive growth in the Massachusetts economy.

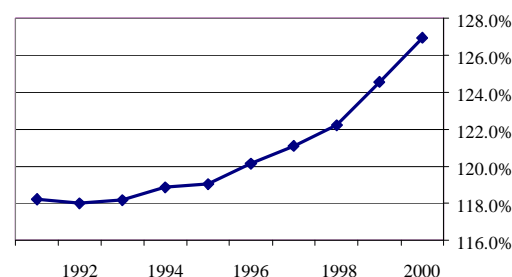
The Commonwealth's FY01 budget forecast is consistent with the economic trends presented above. Budgeted revenues and other sources, as estimated by the Executive Office for Administration and Finance, are currently projected at approximately \$21.9 billion, including transfers and other receipts. The estimate assumes tax revenues will be 1.7% lower than the FY00 actual collections of \$15.7 billion, after accounting for sales tax, funds dedicated to the MBTA. This estimate also reflects the impact of two taxes cuts effective for calendar year 2001.

On November 7, 2000 Massachusetts' voters approved two initiative programs that reduced personal income taxes beyond what was in the FY00 budget. A 5.85% rate was effective for tax year 2000 and a 5.8% rate was effective on January 1, 2001. The voters reduced the 2001 rate to 5.6%, the 2002 rate to 5.3% and thereafter to 5%. This rate reduction has an impact of \$135 million in FY01 rising to \$1.2 billion when fully implemented in FY04. Economic theory suggests that the tax reduction

**Monthly Unemployment Rate
July 1999 – June 2000**



**Massachusetts vs. United States
Year-to-Year Per Capita
Net Income Change
1991- 2000**



Source: - United States Department of Commerce, Bureau of Economic Analysis, 2000 as of June 30, 2000, population for per capita calculation from MISER

will return to the Commonwealth in the form of increased spending activity and therefore, higher tax receipts. In the short run, it will also force the Commonwealth to live within the means that the citizens have stipulated.

Charitable donations will also be deductible from earned income beginning in tax year 2001. This has an estimated impact of \$80 million in 2001 and \$192 million when fully implemented. The charitable deduction will help stimulate the not-for-profit sector in the Commonwealth.

After accounting for vetoes and overrides in the budget as passed, the Executive Office for Administration and Finance projects the Commonwealth's total budgeted expenditures and other uses in FY01 at \$22.1 billion. This estimate assumes the spending in the Commonwealth will decrease by 1.4% from FY00.

The Administration is engaged in an extensive mid-year review of this estimate. The Governor will release his recommended budget for FY02 in late January, at which time the FY01 forecast may be revised.

SIGNIFICANT ACCOMPLISHMENTS

In FY00, there were a number of significant accomplishments that demonstrate accountability and sound financial management.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Commonwealth for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 1999. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports. This is the tenth consecutive year that the Commonwealth has received this award.

On both a statutory and GAAP basis, the Commonwealth has maintained a positive fund balance for the tenth consecutive year. The Commonwealth Stabilization Fund balance, sometimes called the "rainy day" fund, has grown to \$1.6 billion, representing the Commonwealth's reserves for future purposes.

As part of the FY01 budget, the Commonwealth established a Capital Needs Investment Trust Fund. For the next five fiscal years, \$45 million of surplus will be deposited into this fund. Of this amount, \$20 million per year will create and preserve affordable housing. \$11 million per year will improve technology in our public schools, and an additional \$14 million per year will be used for deferred maintenance of state property and redevelopment of state facilities. These initiatives are important, as they improve the livelihood of our citizens, while creating opportunities for further economic development.

The non-tax revenue optimization campaign was very successful in FY00. With special authorization in the budget, a task force was comprised of key persons from the Executive Office for Administration and Finance, the Budget Bureau, and the Comptroller's Office.

The task force provided leadership and sponsored projects by which outside experts were engaged on a contingent fee basis, and departments optimized various sources of non-tax revenue (such as federal reimbursement) by over \$202 million during FY00. The initiative is dedicated to optimizing all collection potential within the framework of existing fee structure and program authorizations. The non-tax revenue optimization campaign continues in FY01.

THE FUTURE OF THE CAFR – NEW REPORTING PRINCIPLES TO BE IMPLEMENTED

As reported to you last year, the Commonwealth's financial statements are in the process of a dramatic change. Our balance sheet will now look more like a business' balance sheet. It will have a complete picture of our government and its ancillary authorities in one entity-wide statement. This statement will include fixed assets, including infrastructure and long-term debt. Bond payments and interest accruals, revenue and expenses will be reported on a full accrual basis similar to a business. A new "Statement of Activities" will be more useful for decision makers, who will be able to directly discern a function of government's direct and indirect costs, offset by the function's direct revenues. It will also include depreciation expense. It must be noted though, that these statements are merely different aggregations of funds and account groups that are already being reported in this CAFR.

The process will enter its next phase in January, when we will take this year's CAFR and begin the process of translating it, on a test basis, into the new reporting format. Some systems will need to be changed, mainly around rearranging the geography of the statements and instituting depreciation for the governmental funds. The most significant component of this project is the valuation of and depreciation of the Commonwealth's infrastructure. We have assembled a working group comprised of major departments with infrastructure, working to develop historical costs, useful lives, capitalization thresholds and policies.

The staff of the Office of the Comptroller is working closely with the GASB, the National Association of State Auditors, Comptrollers and Treasurers ("NASACT") the Association of Government Accountants ("AGA") and GFOA, to implement Statement 34 and its related statement 35 for higher education. We have already released an implementation guide for our schools of higher education for statements 34 and 35. This guide is available on our website. The Office of the Comptroller is in the process of doing the same early in calendar year 2001 for our other component units.

The Division of Capital Asset Management has undertaken a concise inventory of vertical assets in the Commonwealth in conjunction with implementation of its upgraded asset management software. Finally, and perhaps, most vitally, we are working closely with our component units and institutions of higher education, all of whom need to uniformly implement exactly when the Commonwealth does.

We are also providing technical assistance and advice to our Cities, Towns and other entities who would like to use our expertise and best

practices to apply to their governments. We have taken the first steps to reach our goal of issuing a pro – forma FY01 CAFR in GASB Statements 34 and 35 format.

RECOMMENDATIONS AND CONCLUSIONS

The Commonwealth has many accomplishments in FY00 of which it can be proud. A large number of projects to enhance or re-engineer business processes with new technology have been performed. Such projects relate to an array of Commonwealth activities, including automation of welfare eligibility determination, management of cases in the legal system, creating a new statewide client server infrastructure, and significant changes to the Commonwealth's administrative and fiscal systems.

Examples of projects from the domain of administrative or fiscal systems include: re-engineering the Commonwealth disbursement practices to the model of electronic commerce; exploiting the internet with web-enabling procurement and other applications and replacing the existing array of payroll and human resource systems with a new payroll/human resources system (HRCMS).

In FY98, the Office of the Comptroller, in conjunction with the Information Technology Division and the Operational Services Division, embarked on a pilot initiative known as the electronic mall or "eMALL." This past summer, after conclusion and evaluation of the pilot, the first "production state" e-Procurement system was launched. eMALL is part of the Commonwealth's on-line government initiative. The eMALL is an extranet application where Commonwealth agencies can prepare their orders for commodities, interact with the Commonwealth's back-end financial systems, place the approved orders with their suppliers, mark goods as received and create automated payments through the accounting system, all done over the internet. The eMALL will expand to other Commonwealth entities such as cities and towns, public authorities and also to other states in order to maximize purchasing power and realize economies of scale.

The Office of the Comptroller continued to enhance its MassFinance website at <http://www.massfinance.state.ma.us>, adding the ability of citizens, employees and vendors of the Commonwealth to access government information they want – when they want it. Commonwealth vendors can now access their remittance information, including scheduled payment and actual payment information, on-line at their convenience. Most recently, MassFinance was enhanced to allow citizens as well as municipal officials the ability to query local aid payments and assessments. In support of the e-Government initiative, the Office of the Comptroller continues to make improvements enhancing this web site by bringing more information and services to the public.

The e-Government effort will expand the existing scope of Commonwealth on-line services to create a fully integrated enterprise portal for the Commonwealth.

February of this year was the culmination of a multi-year effort to rethink the Commonwealth's human resource and payroll practices and

replace multiple legacy systems with HRCMS. In a Commonwealth-wide effort, the personnel and payroll practices of the Commonwealth were dissected and reconstructed. Departments across state government were led by an Executive Committee, chaired by the Personnel Administrator, James Hartnett. The committee had representatives from the Judiciary, Board of Higher Education, Group Insurance Commission, Information Technology Division, Fiscal Affairs Division and the Office of the Comptroller. Examples of the business process changes include the elimination of paper.

Prior to HRCMS, 68% of employees received their pay through direct deposit. Today, over 93% do, reducing banking costs across the Commonwealth. All payroll deductions have also moved to electronic processes. Checks and paper reports have been replaced with electronic payments and data files for all payroll deductions, such as purchases of transit passes, insurance, annuities and payments among the Commonwealth departments. This project eliminated the control risks and inefficiencies associated with the payment of \$250 million annually. A dedicated team of state employees and contractors worked countless nights and weekends making this, the first major financial system replacement since 1986, an outstanding success. With the implementation of HRCMS, systems are more flexible and efficient. Information has become readily accessible to decision makers in the Commonwealth.

Finally, the long-feared Y2K crisis never arrived in the Commonwealth. This was not because the risk did not exist. The dedicated effort of thousands of employees across the Commonwealth identified systems and software that were non-compliant and implemented solutions to insure uninterrupted service as we entered the new millennium. Under the leadership of the Chief Information Officer, David Lewis, the Commonwealth in many instances did more than solve the problem. We used Y2K as an opportunity to review business practices and the technology supporting those business practices. As a result, instead of carrying 1990's technology forward into the next century, new systems taking advantage of new technologies have been put in place.

Building upon the observations in this letter, a detailed review of these financial statements suggests the need for action to further improve and strengthen state finance law and fiscal practice.

The Commonwealth must constantly monitor and update its systems and controls. Upon taking office 18 months ago, I began a multi-year effort to expand awareness of and the quality of internal controls throughout the Commonwealth. We have asked each department, at its highest levels, to assess its risks and target controls to manage those risks efficiently and effectively. Toward this end the Office of the Comptroller has continued a multi-pronged effort to improve controls throughout the Commonwealth. This effort must continue.

The Commonwealth must ensure that its bills are paid timely. A solid reputation of timely bill payments benefits both our business partners and the taxpayers. During FY00, this office began a campaign with the Chief Fiscal Officers in the 156 state departments to improve the percentage of bills paid within 30 days. The timing and focus on bill paying improved the Commonwealth's bill payment track record

this year to 82% of all bills paid within 30 days. This effort will continue until we have reached and maintained a 95% level.

The management of spending to the administratively capped debt limit should continue. The Commonwealth has committed to an extensive capital projects agenda and great discipline will be needed to assure spending on these projects is matched with financing from bonds, federal reimbursement, transfer of budgetary surplus and financial participation from component units. Assuring proper balance between outflows and inflows, and limiting the segment funded by bonds to the administratively imposed limit, will be a major challenge.

The Commonwealth should continue to emphasize optimization of both tax and non-tax revenues. This statewide campaign has generated nearly \$202 million in revenues since FY96. The revenue optimization strategy should continue.

The Commonwealth must continue its investment in information technology as a means of delivering services as expeditiously and transparently as possible. This fall, Governor Cellucci launched a statewide initiative, under the direction of Secretary Crosby, to re-conceptualize the way government interacts with its customers. As part of the initiative, we will serve our citizens quickly, fairly and as accurately as possible on their schedules. We will eliminate “stand-alone” systems to streamline information. We will make it as easy as possible for citizens to interface with us. In our increasingly busy and dynamic world, it is critical that government continues to “re-invent” itself.

I again would like to express my thanks to the many dedicated people within the Office of the State Comptroller. We have had another successful year within the office. Our office has undertaken many tasks this year: a successful Y2K transition, a successful implementation of the HRCMS system, and a dedicated effort helping to implement forward funding of the MBTA. As we go forth into FY01, we are embarking on the redesign of our separate Comprehensive Annual Financial Report due to Government Accounting Standards Board Statements 34 and 35, and an upgrade to the Commonwealth’s accounting system, MMARS. I am proud to have all the employees on my team to help tackle these and other difficult issues of the future.

Respectfully submitted,

Martin J. Benison
Comptroller



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